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# Mahindra & Mahindra

Industry: Auto and Auto Components



## New launches to lift UV performance, FES business to grow on rural growth

### Strong performance aided by both volumes and cost management

M&M's standalone Q1FY19 revenues came in line with the street's expectations at ₹135 bn, growing at 16.8% yoy and 1.6% sequentially. Automotive volumes in the quarter grew by 19.8% yoy and de-grew 15.2% qoq on seasonality. FES volumes grew by 19.2% yoy and 43% sequentially as Q1 being the start of monsoon is always one of the best quarters for tractors sales. While the auto revenues moved up by 6.6% yoy, they moved down by 10.4% qoq. FES revenues zoomed up 16% yoy and 35% qoq. On profitability front, EBITDA margins went up to 13.8% from 10.9% yoy and 13.2% qoq. Auto EBIT margins were sluggish sequentially due to aged product mix at 6.8%, while moving up yoy from 3.9% yoy. FES margins zoomed up at 20.9% due to sharp surge in tractor margins along with the volumes offering operating leverage despite higher RM costs. Higher other income (by 30% yoy) standard tax rate (@30%) and maintained depreciation expenses (14% up yoy, 1.6% down qoq) led to PAT adjusted for exceptional items going up by 56.7% yoy and 18.7% qoq at ₹12 bn

### New launches to lift up SUV business performance

The future of UV business of M&M is now pinned upon new launches only as competition is intensifying. The company will launch a new SUV named Marazzo along with a new SUV (a premium vehicle Y400 on Rexton platform of Ssangyong) product before Diwali and another new product based on SsangYong's Tivoli platform named S201 post the festive season to take on the likes of Brezza and Creta. Additionally, the company has launched refresh of existing model XUV500 called as 'The Plush New XUV500' in FY2018E, and TUV300 launched in May 2018. M&M will launch a new range of gasoline, diesel as well as CNG engines over the next two years, which will increase addressable market segment of the company. With these new launches, we expect M&M to regain its lost market share and post a 10%/8% growth in FY19E/20E respectively.

### M&M becoming a formidable force in CV industry

In MHCV segment, the industry in FY 18 has grown by 28%, while M&M has grown by 41.2%, thus increasing its market share by 50 bps to 4.5% in the same period (5% by the end of Q1). This is on the success of the 'Blazo' and 'Grader' range of heavy trucks, while on the ICV side, BMT Plus, Bolero Plus, Jeeto and Supro range of small trucks are giving tough fight to its competitors. In Q1, the business grew by 16.2%. Also on the passenger CV side, buses finding utility with schools like the Excelo range of buses are doing excellent. The company has expanded its service network (14 touch points in Delhi-Mumbai route) and parts availability through its parts plazas. The company is now targeting ICV segment and will launch the new Furio range of ICVs shortly. With lack of clarity on the overloading norms, CV industry may continue with the overhang over the past few months. However, we expect this business to grow at a robust 15%/20% in FY 19E/20E respectively.

### FES segment on a fast track, concerns surround FY 20 growth.

FES segment of the company has posted a strong 23.4% and 43% yoy volume and revenue growth respectively in Q1 on seasonally strong quarter. The existing Jivo and Novo brands of M&M are performing very well. On the Swaraj range of tractors, the company launched Swaraj 963 tractor in the high hp range last year, which is yielding strong results. M&M launched a new brand of tractors 'Trackstar' in Q1 and sold 1,162 units during the same period. Although the monsoons off late have been weak and posted a 10% deficit till yesterday, management expects a revival later as per the MET.

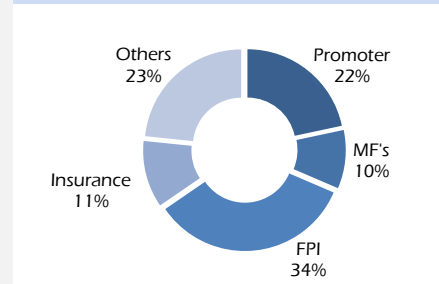
### Stock Data

Current Market Price (₹)	930
12M Price Target (₹)	1,095
Potential upside (%)	18
BSE / NSE Symbol	500520 / M&M
Reuters / Bloomberg	MAHM / MM IN
FV (₹)	5
Market Cap Full (₹ bn)	1,154
52-Week Range (₹)	944 / 612

### What's Changed

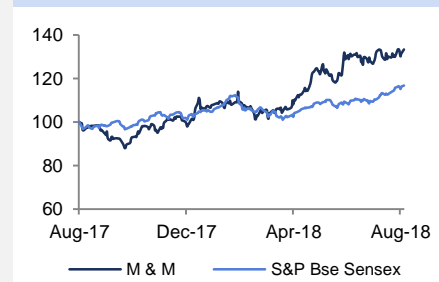
12 M Price Target (₹)	From 1,028 to 1,095
FY2019E EPS (₹)	From 41 to 44
FY2020E EPS (₹)	From 48 to 53

### Shareholding Pattern



YE Mar	FY17	FY18	FY19E	FY20E
Total sales (bn)	441	487	594	686
EBITDA margins (%)	10.3	12.8	13.0	13.7
PAT margins (%)	7.1	8.1	8.7	9.2
EPS	26.2	33.0	43.7	53.0
P/E	35.5	28.2	21.3	17.5
P/BV	4.1	3.7	3.2	2.7
EV/EBITDA	9.1	15.0	11.9	9.7
ROE%	11.6	12.9	14.9	15.5
Dividend yield %	0.7	0.5	0.5	0.5

### Relative Price Performance



Ashwin Patil

ashwin\_patil@lkipsec.com

+91 22 6635 1271

LKP Research

Although the monsoons off late have been weak and posted a 10% deficit till yesterday, management expects a revival later as per the MET department and will have a minimum impact on the tractors and FES machinery businesses. With expectations of normal monsoon, the company has expectations of 12-14% growth in FY19E. We are however concerned about the growth in FY20 as tractor cycle is of 3 years and FY 20 being the fourth year of growth it may show subdued growth. Management expects 8-10% growth in the same period, however, we believe this will be driven by monsoons in FY 20E and impact of El Nino which is expected to set in any time soon. We expect 13.4%/9% growth in this business in the next two years.

#### Improved product mix to result into margins moving upwards

In Q1 FY19, the company posted robust margins at 13.8% as the FES segment (38% of volumes) posted strong margins at ~21%. As FES sales move up hereon we expect even better margin performance reducing the impact of rising RM costs to a great extent. Lower discounts as compared to the festive season will be another factor leading to a better margin performance. Furthermore, price increases to be taken on both the segments (1.5% in Auto and 1.2% in FES in Q1) along with tight cost control are expected to offset the RM prices hikes further assisting the margins. New launches at SUVs as well as FES segments would provide better product mix, but associated launch costs may somewhat impact margin. We expect 13-14% margins for FY19-20E as compared to 12.8% in FY18.

#### Financial Highlights

All fig in ₹ mn	Q1 FY19	Q4 FY18	% qoq	Q1 FY18	% yoy
Net sales	1,35,199	1,33,079	1.6%	1,15,757	16.8%
Raw material costs	95,566	92,364	3.5%	84,203	13.5%
Employee costs	7,516	7,063	6.4%	6,938	8.3%
Other expenses	13,401	16,110	-16.8%	11,950	12.1%
EBITDA	18,716	17,542	6.7%	12,666	47.8%
EBITDA margins %	13.8%	13.2%	50 bps	10.9%	290 bps
Other income	2,650	1,715	54.5%	2046	29.5%
Depreciation	3,930	3,993	-1.6%	3439	14.3%
Interest expenses	327	330	-0.8%	308	6.4%
PBT	17,109	14,934	14.6%	10966	56.0%
Tax	5,108	4,821	6.0%	3306	54.5%
Reported PAT	12,209	10,591	15.3%	7660	59.4%
Exceptional items	209	479	-56.4%	0	0.0%
Adjusted PAT	12,001	10,112	18.7%	7660	56.7%
Adj EPS (₹)	10.14	8.54	18.7%	6.5	56.7%

#### Outlook and valuation

M&M's volume growth has picked up well in Q1 FY18. Going forward, new SUV, FES and CV launches will help the company to gain market share across the board. Better product mix in the form of new model launches will enable M&M to post better margins. In line with the company's thrust efforts on the petrol business and EV front (which is at a low pace now), we believe the company to give a better competition to its rivals. Apart from the new launches, GOI's added emphasis on the rural markets, we expect FY19E too to be a good year for the tractor industry, however, some concerns remain on FY 20E growth. CV business will continue to get boost from the infra development in the country, while lack of clarity on overloading norms may act as an overhang in the near term. Margin performance to improve hereon as the company is bringing tighter control. Price hike would somewhat negate the impact of higher RM costs and launch costs. In view of this improved performance, we slightly raise our target to ₹ 1,095, which includes ₹ 300 of subsidiary valuation.

**Financials**
**Income statement**

YE Mar (₹ mn)	FY 17	FY 18	FY 19E	FY 20E
<b>Total Revenues</b>	<b>4,40,731</b>	<b>4,86,855</b>	<b>5,94,086</b>	<b>6,85,560</b>
Raw Material Cost	3,20,812	3,41,347	4,17,642	4,80,578
Employee Cost	27,144	28,409	32,081	35,649
Other Exp	47,433	54,860	67,132	75,412
<b>EBITDA</b>	<b>45,342</b>	<b>62,240</b>	<b>77,231</b>	<b>93,922</b>
EBITDA Margin (%)	10.3	12.8	13.0	13.7
Other Income	13,455	10,363	12,200	13,800
Depreciation	15,264	14,794	14,220	16,477
Interest	1596	1122	1010	1070
<b>PBT</b>	<b>41,937</b>	<b>56,687</b>	<b>74,201</b>	<b>90,175</b>
PBT Margin(%)	9.5	11.6	12.5	13.2
Tax	10,792	17,464	22,260	27,053
<b>Adj PAT</b>	<b>31,145</b>	<b>39,223</b>	<b>51,941</b>	<b>63,123</b>
Adj PAT Margins (%)	7.1	8.1	8.7	9.2
Exceptional items	5485	4336	0	0
<b>Reported PAT</b>	<b>36,630</b>	<b>43,559</b>	<b>51,941</b>	<b>63,123</b>
Rep. PAT Margins (%)	8.3	8.9	8.7	9.2

**Key Ratios**

YE Mar	FY 17	FY 18	FY 19E	FY 20E
<b>Per Share Data (₹ )</b>				
Adj. EPS	26.2	33.0	43.7	53.0
CEPS	43.6	49.0	55.6	66.9
BVPS	225.1	254.6	293.3	341.2
DPS	6.3	4.2	4.4	4.5
<b>Growth Ratios (%)</b>				
Total revenues	7.8	10.5	22.0	15.4
EBITDA	-1.9	37.3	24.1	21.6
PAT	-0.7	25.9	32.4	21.5
EPS Growth	-48.2	25.9	32.4	21.5
<b>Valuation Ratios (X)</b>				
PE	35.5	28.2	21.3	17.5
P/CEPS	21.3	19.0	16.7	13.9
P/BV	4.1	3.7	3.2	2.7
EV/Sales	0.9	1.9	1.6	1.3
EV/EBITDA	9.1	15.0	11.9	9.7
<b>Operating Ratios (Days)</b>				
Inventory days	31.4	28.9	29.0	29.0
Receivable Days	22.6	22.9	24.0	27.0
Payables day	77.1	82.8	84.0	85.0
Net Debt/Equity (x)	0.08	0.07	0.07	0.07
<b>Profitability Ratios (%)</b>				
ROE	11.6	12.9	14.9	15.5
Dividend payout	23.9	12.7	10.0	8.6
Dividend yield	0.7	0.5	0.5	0.5

Source: Company, LKP Research

**Balance sheet**

YE Mar (₹ mn)	FY 17	FY 18	FY 19E	FY 20E
<b>Equity and Liabilities</b>				
Equity Share Capital	2,968	5,950	5,950	5,950
Reserves & Surplus	2,64,888	2,96,991	3,43,056	4,00,076
Total Networth	2,67,856	3,02,940	3,49,005	4,06,026
Total debt	35,487	35,223	38,623	42,023
Deferred tax liabilities	0	2,772	2,772	2,772
<b>Current liabilities &amp; Prov</b>	<b>96,340</b>	<b>1,33,232</b>	<b>1,44,513</b>	<b>1,61,513</b>
<b>Total Liabilities</b>	<b>3,99,697</b>	<b>4,74,167</b>	<b>5,34,914</b>	<b>6,12,334</b>
<b>Assets</b>				
Fixed assets	98,114	1,09,881	1,31,661	1,61,184
Non current Investments	1,43,017	1,66,455	1,81,455	1,96,455
Other non current assets	32,471	33,086	37,086	41,086
<b>Current Assets</b>	<b>1,26,095</b>	<b>1,64,745</b>	<b>1,84,712</b>	<b>2,13,609</b>
Cash and Bank	16,870	28,937	27,699	26,438
Inventories	27,580	27,017	33,183	38,183
Sundry Debtors	29,388	31,730	39,063	50,713
Loan, Advances & others	5,065	9,752	14,258	20,567
Other current assets	47,192	67,309	70,509	77,709
<b>Total Assets</b>	<b>3,99,697</b>	<b>4,74,167</b>	<b>5,34,914</b>	<b>6,12,334</b>

**Cash Flow**

YE Mar (₹ mn)	FY 17	FY 18	FY 19E	FY 20E
PBT	41,742	56,688	74,201	90,175
Depreciation	15,264	14,794	14,220	16,477
Interest	1,596	1,122	1,010	1,070
Chng in working capital	-508	17,803	-9,924	-13,158
Tax paid	-9,929	-12,887	-22,260	-27,053
Other operating activities	-11,064	-7,250	0	0
<b>Cash flow from operations (a)</b>	<b>37,101</b>	<b>70,271</b>	<b>57,246</b>	<b>67,511</b>
Capital expenditure	-20,742	-26,688	-36,000	-46,000
Chng in investments	-44,344	-27,056	-15,000	-15,000
Other investing activities	37,267	2,646	14,760	-1
<b>Cash flow from investing (b)</b>	<b>-27,819</b>	<b>-51,098</b>	<b>-36,240</b>	<b>-61,001</b>
<b>Free cash flow (a+b)</b>	<b>9,282</b>	<b>19,173</b>	<b>21,007</b>	<b>6,510</b>
Equity raised/(repaid)	0	0	0	0
Inc/dec in borrowings	-1,742	592	3,000	3,000
Dividend paid (incl. tax)	-8,391	-9,230	-5,876	-6,102
Other financing activities	-456	-456	-456	-456
<b>Cash flow from financing (c)</b>	<b>-10,589</b>	<b>-9,094</b>	<b>-3,332</b>	<b>-3,558</b>
<b>Net chng in cash (a+b+c)</b>	<b>-1,307</b>	<b>10,079</b>	<b>17,675</b>	<b>2,952</b>
<b>Closing cash &amp; cash equivalents</b>	<b>5,339</b>	<b>14,179</b>	<b>27,699</b>	<b>26,438</b>

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